

Rewriting economic history against Obama

By Robert Shapiro

Two respected economic advisers to the Romney campaign launched a new line of criticism of President Obama's economic stewardship on this page this week ["Obama's faulty math; his economic arguments contradict themselves," op-ed, Aug. 16]. The case offered by Kevin Hassett of the American Enterprise Institute and Glenn Hubbard of Columbia Business School contained three bold claims.

Two of the three are demonstrably wrong as matters of economics, and the other is off-point.

First, Hassett and Hubbard say that the president has misled the country in claiming that economies that suffer financial crises typically recover only very slowly. Second, they insist that Obama himself didn't expect a slow recovery, judging by his administration's initial forecast. And they say that if Obama did expect a slow recovery, he should have known that Keynesian stimulus wouldn't work under that circumstance.

If this brief were true, it could suggest that the president was befuddled in his early months in office, then lied to promote his stimulus package and now is lying again. But this brief is simply wrong, and as good economists, they should know it.

To refute Obama's claim about the slow recovery — as well as a recent, landmark study documenting hundreds of disappointing recoveries following financial crises around the world — Hassett and Hubbard cite a less well-known study from the Cleveland Federal Reserve Bank. That study, by Michael Bordo and Joseph Haubrich, found that financial crises in the United States often have been followed by strong recoveries. But the main evidence comes from the long series of financial busts from 1880 to the 1920s. In fact, Bordo and Haubrich note that the three major U.S. financial crises since the 1920s — 1932-33, 1990-91 and 2007-08 — were all followed by notably slow recoveries. Moreover, as Ezra Klein reported in *The Post* this month, Bordo believes that the slow pace of the current recovery reflects not the president's policies but the fact that it follows a meltdown in both finance and housing.

The Romney campaign's notion that the 2007-08 financial crisis should have been followed by a rapid, strong recovery — and, by implication, would have been but for Obama's policies — ignores other well-known economic evidence. The data show, for example, that the current recovery is comparable to the one that followed the 2001 recession, when Hubbard chaired George W. Bush's Council of Economic Advisers. In the three years following the end of the 2001 recession, which did not involve a financial crisis, real gross domestic product grew only modestly faster than it did in the past three years. Moreover, in the 37 months since the end of the 2007-09 recession, U.S. businesses created nearly 3.9 million new jobs. Recall that fewer than 1.1 million were created in the first 37 months after the 2001 downturn.

The Romney advisers then criticized the Obama administration for its first economic forecast. Yes, the administration initially predicted a stronger recovery than has occurred. In part that was because administration officials, along with everyone else, underestimated the depths of the precipice the economy had fallen into. The Bush administration made much the same mistake, with much more dire consequences. The Bush team ignored all signs of an impending meltdown and then stood by as Lehman Brothers collapsed, taking AIG, Merrill Lynch and others down as well.

Finally, the Romney advisers claim that if Obama had expected a slow recovery, he should have known that stimulus would produce only a temporary lift, to be followed by a comparable decline. There is an economic theory called “rational expectations”; it holds that stimulus never works. Almost all economists dismiss it because the overwhelming consensus is that stimulus often does work. In any case, there is no theory or evidence to support the peculiar claim that the expectation of a slow recovery will disarm Keynesian stimulus. In fact, within two months of Congress passing Obama’s stimulus, our sickening slide toward a depression halted, and growth and job creation resumed — albeit at the moderate pace characteristic of recoveries following a financial and broader economic crisis.

Yes, growth has slowed periodically since then, but not to anything like the degree the Romney advisers claim. According to their notion, we should be in a deep recession today. In any case, the president asked repeatedly for additional measures to bolster the recovery, which Republicans in the House of Representatives have repeatedly rejected.

Beyond the partisan cherry-picking of economic evidence, the question remains: Could Obama have done anything else to drive a more robust recovery? The history of economic meltdowns suggests that a strong recovery is possible only if you directly address the underlying causes of the crisis. In our case, that meant not only stabilizing the financial markets, which we did, but also taking decisive steps to stabilize housing prices by reducing home foreclosures.

Now, imagine the political firestorm if the president had tried to force banks to refinance the mortgages of homeowners in danger of losing their houses or offered short-term loans to help them meet their mortgage payments until the economy recovered. The president’s opponents can hardly blame him now for not taking steps that they would have blocked in any case.

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